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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
(In thousands of dollars, except per share amounts)
December 31, 2003 and 2002

<TABLE>
<CAPTION>

<S>	2003 <C>	2002 <C>
Stockholders' equity:		
Common stock, $.50 par value	$ 46,635	$ 35,034
Capital in excess of par value	413,008	317,871
Retained earnings	210,915	180,047
Minority interest	912	503
Treasury stock, at cost	(12,611)	(40,421)
Accumulated other comprehensive income	171	63
Total stockholders' equity	659,030	493,097
6.05% Series B cumulative preferred stock	--	172
Long-term debt:		
Long-term debt of subsidiaries (substantially secured by utility plant):		
Interest Rate Range		
0.00% to 2.49%	16,868	18,009
2.50% to 2.99%	18,913	14,052
3.00% to 3.49%	5,618	4,733
3.50% to 3.99%	2,800	3,200
4.00% to 4.99%	8,135	8,135
5.00% to 5.49%	110,875	90,955
5.50% to 5.99%	76,260	86,260
6.00% to 6.49%	119,360	126,360
6.50% to 6.99%	42,000	52,000
7.00% to 7.49%	46,716	58,000
7.50% to 7.99%	23,000	23,000
8.00% to 8.49%	17,500	17,497
8.50% to 8.99%	9,000	9,000
9.00% to 9.49%	53,805	54,359
9.50% to 9.99%	43,242	44,637
10.00% to 10.50%	6,000	6,000
	600,092	616,197
Note payable, 6.05%, due 2006	960	978
Unsecured notes payable, 4.87%, due 2023	135,000	--
	736,052	617,175
Current portion of long-term debt	39,386	34,265
Long-term debt, excluding current portion	696,666	582,910
Total capitalization	$ 1,355,696	$ 1,076,179

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See accompanying notes to consolidated financial statements.

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AQUA AMERICA, INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
(In thousands of dollars)
Years ended December 31, 2003, 2002 and 2001

<TABLE>
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	2003	2002	2001
Cash flows from operating activities:			
Net income	$ 70,795	$ 67,206	$ 60,111
Adjustments to reconcile net income to net cash flows from operating activities:			
Depreciation and amortization	51,463	44,322	40,168
Deferred income taxes	26,741	18,470	14,935
Gain on sale of water system	--	(5,676)	--
Gain on sale of other assets	(5,692)	(2,079)	(3,384)
Net increase in receivables, inventory and prepayments	(314)	(742)	(5,295)
Net increase in payables, accrued interest, accrued taxes and other accrued liabilities	7,777	1,346	7,045
Payment of Competitive Transition Charge	--	--	(11,465)
Other	(7,397)	(1,287)	50
Net cash flows from operating activities	143,373	121,560	102,165
Cash flows from investing activities:			
Property, plant and equipment additions, including allowance for funds used during construction of $2,127 $1,389 and $1,222	(163,320)	(136,164)	(124,088)
Acquisitions of water and wastewater systems	(192,331)	(8,914)	(9,517)
Net decrease (increase) in funds restricted for construction activity	15,314	(23,986)	(15,806)
Net proceeds from the sale of water systems	4,000	12,118	--
Net proceeds from the sale of other assets	6,496	6,258	5,211
Other	(312)	(362)	(173)
Net cash flows used in investing activities	(330,153)	(151,050)	(144,373)
Cash flows from financing activities:			
Customers' advances and contributions in aid of construction	8,181	10,266	5,175
Repayments of customers' advances	(4,257)	(5,070)	(4,652)
Net proceeds (repayments) of short-term debt	(18,654)	5,445	8,385
Proceeds from long-term debt	154,537	119,350	64,024
Repayments of long-term debt	(44,204)	(43,279)	(8,498)
Redemption of preferred stock	(172)	(944)	(644)
Proceeds from issuing common stock	134,826	10,611	13,522
Repurchase of common stock	(1,353)	(24,109)	(2,493)
Dividends paid on preferred stock	(10)	(52)	(106)
Dividends paid on common stock	(39,917)	(36,789)	(34,234)
Other	2,645	(1,034)	(1,348)
Net cash flows from financing activities	191,622	34,395	39,131
Net increase (decrease) in cash and cash equivalents	4,842	4,905	(3,077)
Cash and cash equivalents at beginning of year	5,915	1,010	4,087
Cash and cash equivalents at end of year	$ 10,757	$ 5,915	$ 1,010
Cash paid during the year for:			
Interest, net of amounts capitalized	$ 40,572	$ 38,040	$ 38,637
Income taxes	$ 19,168	$ 24,165	$ 19,388

</TABLE>

See Summary of Significant Accounting Policies-Customers' Advances for Construction, Acquisitions and Employee Stock and Incentive Plans footnotes for description of non-cash activities.
See accompanying notes to consolidated financial statements.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements
(In thousands of dollars, except per share amounts)

Summary of Significant Accounting Policies

Name Change - On January 16, 2004, Philadelphia Suburban Corporation changed its corporate name to Aqua America, Inc. In addition, we have changed our ticker symbol from PSC to WTR on the New York Stock Exchange and Philadelphia Stock Exchange effective as of the opening of trading on January 20, 2004.

Nature of Operations - Aqua America, Inc. ("Aqua America" or the "Company") is the holding company for regulated utilities providing water or wastewater services in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. Our largest operating subsidiary, Aqua Pennsylvania, Inc. - formerly Pennsylvania Suburban Water Company, accounts for approximately 60% of our operating revenues and provides water or wastewater service to customers in the suburban areas north and west of the City of Philadelphia and in 19 other counties in Pennsylvania. The Company's other subsidiaries provide similar services in 13 other states. In addition, the Company provides water and wastewater service through operating and maintenance contracts with municipal authorities and other parties close to our operating companies' service territories.

Regulation - Most of the operating companies that are regulated public utilities are subject to regulation by the public utility commissions of the states in which they operate. The respective public utility commissions have jurisdiction with respect to rates, service, accounting procedures, issuance of securities, acquisitions and other matters. Some of the operating companies that are regulated public utilities are subject to rate regulation by county or city government. Regulated public utilities follow Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides for the recognition of regulatory assets and liabilities as allowed by regulators for costs or credits that are reflected in current rates or are considered probable of being included in future rates. The regulatory assets or liabilities are then relieved as the cost or credit is reflected in rates.

Consolidation - The consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions have been eliminated where appropriate.

Recognition of Revenues - Revenues include amounts billed to customers on a cycle basis and unbilled amounts based on estimated usage from the latest billing to the end of the accounting period. Nonregulated revenues are recognized when services are performed and are primarily associated with operating and maintenance contracts and data processing service fees. Nonregulated revenues totaled $11,806 in 2003, $7,190 in 2002 and $7,092 in 2001.

Property, Plant and Equipment and Depreciation - Property, plant and equipment consist primarily of utility plant. The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overheads and, for certain utility plant, allowance for funds used during construction. Water systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost, less applicable accumulated depreciation, and the purchase price is recorded as an acquisition adjustment within utility plant. At December 31, 2003, utility plant includes a net credit acquisition adjustment of $48,054, which is generally being amortized from 0 to 20 years. Amortization of the acquisition adjustments totaled $1,649 during 2003, $633 during 2002 and $545 during 2001.

Utility expenditures for maintenance and repairs, including major maintenance projects and minor renewals and betterments, are charged to operating expenses when incurred in accordance with the system of accounts prescribed by the public utility commissions of the states in which the company operates. The cost of new units of property and betterments are capitalized.

When units of utility property are replaced, retired or abandoned, the recorded value thereof is credited to the asset account and such value, together with the net cost of removal, is charged to accumulated depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is recorded. In some cases, the Company recovers retirement costs through rates during the life of the associated asset and before the costs are incurred. These amounts result in a regulatory liability being reported based on the amounts previously recovered through customer rates. All prior year amounts have been restated to remove the regulatory asset and liability from accumulated depreciation where it had been previously reported.

The straight-line remaining life method is used to compute depreciation on utility plant. Generally, the straight-line method is used with respect to transportation and mechanical equipment, office equipment and laboratory equipment.

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In accordance with the requirements of Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the long-lived assets of the Company, which consist primarily of Utility Plant in Service and regulatory assets, are reviewed for impairment when changes in circumstances or events occur. There has been no change in circumstances or events that have occurred that require adjustments to the carrying values of these assets.

Allowance for Funds Used During Construction - The allowance for funds used during construction ("AFUDC") is a non-cash credit which represents the estimated cost of funds used to finance the construction of utility plant. In general, AFUDC is applied to construction projects requiring more than one month to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated. The amount of AFUDC related to equity funds in 2003, 2002 and 2001 was $0, $9 and $0 respectively. No interest was capitalized by our nonregulated businesses.

Cash and Cash Equivalents - The Company considers all highly liquid investments with an original maturity of three months or less, which are not restricted for construction activity, to be cash equivalents.

Deferred Charges and Other Assets - Deferred charges and other assets consist of financing expenses, other costs and marketable securities. Deferred bond issuance expenses are amortized by the straight-line method over the life of the related issues. Call premiums related to the early redemption of long-term debt, along with the unamortized balance of the related issuance
expense, are deferred and amortized over the life of the long-term debt used to fund the redemption. Other costs, for which the Company has received or expects to receive prospective rate recovery, are deferred and amortized over the period of rate recovery in accordance with SFAS No. 71.

Marketable securities are considered "available-for-sale" and accordingly, are carried on the balance sheet at fair market value. Unrecognized gains are included in other comprehensive income.

Income Taxes - The Company accounts for certain income and expense items in different time periods for financial reporting than for tax reporting purposes. Deferred income taxes are provided on the temporary differences between the tax basis of the assets and liabilities, and the amounts at which they are carried in the consolidated financial statements. The income tax effect of temporary differences not allowed currently in rates is recorded as deferred taxes with an offsetting regulatory asset or liability. These deferred income taxes are based on the enacted tax rates expected to be in effect when such temporary differences are projected to reverse. Investment tax credits are deferred and amortized over the estimated useful lives of the related properties.

Customers' Advances for Construction - Water mains or, in some instances, cash advances to reimburse the Company for its costs to construct water mains, are contributed to the Company by customers, real estate developers and builders in order to extend water service to their properties. The value of these contributions is recorded as Customers' Advances for Construction. The Company makes refunds on these advances over a specific period of time based on operating revenues related to the main or as new customers are connected to and take service from the main. After all refunds are made, any remaining balance is transferred to Contributions in Aid of Construction. Non-cash property, in the form of water mains, has been received, generally from developers, as advances or contributions of $9,991, 17,271 and $10,196 in 2003, 2002 and 2001, respectively.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Contributions in Aid of Construction - Contributions in aid of construction include direct non-refundable contributions and the portion of customers' advances for construction that become non-refundable.

Inventories, Materials and Supplies - Inventories are stated at cost. Cost is principally determined using the first-in, first-out method.

Stock-Based Compensation - The Company accounts for stock-based compensation using the intrinsic value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees". Accordingly, no compensation expense related to granting of stock options has been recognized in the financial statements for stock options that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the following table as if compensation cost for stock options was determined as of the grant date under the fair value method:

<TABLE>
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	Years Ended December 31,		
	2003	2002	2001
<S>	<C>	<C>	<C>
Net income available to common stock, as reported	$ 70,785	$ 67,154	$ 60,005
Add: stock-based employee compensation expense included in reported net income, net of tax	224	473	194
Less: pro forma expense related to stock options granted, net of tax effects	(1,793)	(1,741)	(1,125)
Pro forma	$ 69,216	$ 65,886	$ 59,074
Basic net income per share:			
As reported	$ 0.80	$ 0.78	$ 0.71
Pro forma	0.78	0.77	0.70
Diluted net income per share:			
As reported	$ 0.79	$ 0.78	$ 0.70
Pro forma	0.78	0.76	0.69

</TABLE>

The per share weighted-average fair value at the date of grant for stock options granted during 2003, 2002 and 2001 was $4.67, $5.15 and $4.47 per option, respectively. The fair value of options at the date of grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2003	2002	2001
Expected life (years)	5.6	5.5	5.2
Interest rate	3.7%	4.9%	5.0%
Volatility	32.4%	34.2%	32.7%
Dividend yield	2.6%	2.6%	2.6%

Use of Estimates in Preparation of Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year's presentation.

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AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Recent Accounting Pronouncements -In July 2001, the Financial Accounting Standards Board ("FASB") approved Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred. When the liability is initially recognized, the carrying amount of the related long-lived asset is increased by the same amount. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, the Company may settle the obligation for its recorded amount, or an alternative amount, thereby incurring a gain or loss upon settlement. The Company adopted this statement as required on January 1, 2003 and it did not have an impact on the Company's results of operations. The Company recovers, through customer rates, retirement costs which do not meet the definition of an asset retirement obligation under SFAS No. 143. The Company's Pennsylvania operating subsidiary recovers retirement costs through an amortization process in customer rates after the costs are incurred. Generally, these costs are recovered over a five-year period. As a result, $13,699 and $11,089 have been reclassified and reported as a regulatory asset as of December 31, 2003 and 2002. Certain other of the Company's operating subsidiaries recover retirement costs through the depreciation component of customer rates during the life of the associated asset. As a result, $7,484 and $6,951 have been reclassified as of December 31, 2003 and 2002, and is reported as a regulatory liability. Prior to the adoption of this statement, these amounts were embedded within accumulated depreciation. All prior year amounts have been restated to remove the regulatory asset and liability from accumulated depreciation.

In April 2002, the FASB approved SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145, among other things, rescinds SFAS No. 4, which required all gains and losses from the extinguishment of debt to be classified as an extraordinary item and amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. The Company adopted this statement in the first quarter of 2003 and it did not have a material impact on the Company's results of operations or financial position.

In June 2002, the FASB approved SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires the recognition of costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement replaces the previous accounting guidance provided in Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. The Company adopted this standard in the first quarter of 2003 and it did not have a material impact on the Company's results of operations or financial position.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," an interpretation of SFAS No. 5, 57 and 107 and rescission of SFAS No. 34. This interpretation clarifies the requirements of FASB Statement No. 5, "Accounting for Contingencies" relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The disclosure provisions of the interpretation are effective for financial statements of periods ending after December 15, 2002. The provisions for initial recognition and measurement are effective on a prospective basis for guarantees that are issued or modified after December 31, 2002. The Company adopted the accounting provisions of this standard in the first quarter of 2003 and it did not have a material impact on the Company's results of operations or financial position.

In April 2003, the FASB approved SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The adoption of this standard had no effect on the Company's results of operations or financial position. As of December 31, 2003, the Company had no derivative instruments or hedging activities.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

In May 2003, the FASB approved SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments with characteristics of both liabilities and equity. The standard is effective for financial instruments entered into or modified after May 31, 2003, and is otherwise effective July 1, 2003. This statement did not have a material impact on the Company's results of operations or financial position.

In December 2003, the FASB approved SFAS No. 132 (Revised 2003), "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 amends SFAS No. 87 "Employers' Accounting for Pensions," SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," and SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions." This new statement does not change the recognition and measurement requirements of those amended statements, and retains the disclosure requirements contained in SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which it replaces and requires additional disclosure. The Company adopted the provisions of this statement as required as of December 31, 2003.

In January 2004, the FASB issued FASB Staff Position ("FSP") No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." FSP 106-1, which is effective for the Company's consolidated financial statements for the year ended December 31, 2003, permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to make a one-time election to defer accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Act was signed into law in December 2003 and establishes a prescription drug benefit under Medicare (Medicare Part D) and a federal subsidy to sponsors of postretirement health care plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Under FSP No. 106-1, sponsors must consider the two new features in measuring the accumulated postretirement benefit obligation ("APBO") and net periodic postretirement benefit costs. In accordance with FSP 106-1, the Company made a one-time election to defer the recognition of the impact on FSP No. 106 accounting. Any measures of APBO and net periodic postretirement benefit cost in the consolidated financial statements and footnotes for the year ended December 31, 2003 do not reflect the effects of the Act. Currently, specific authoritative accounting guidance for the federal subsidy is pending and that guidance when issued may require the Company to change previously reported information. The Company is currently investigating the impacts of the adoption of FSP 106-1's initial recognition, measurement and disclosure provisions on its consolidated financial statements.

Acquisitions

AquaSource Acquisition - Pursuant to our strategy to grow through acquisitions, on July 31, 2003, the Company completed its acquisition of four operating water and wastewater subsidiaries of AquaSource, Inc. (a subsidiary of DQE, Inc.), including selected, integrated operating and maintenance contracts and related assets (individually and collectively the acquisition is referred to as "AquaSource") for $190,717 in cash, as adjusted pursuant to the purchase agreement for the completion of a closing balance sheet and the finalization of working capital ($195,533 was paid at closing and refunds were subsequently received totaling $4,816). There remains approximately $12,000 of the above purchase price in dispute subject to an arbitration process under the terms of the purchase agreement. Accordingly, the final purchase price is expected to be within the range of $178,700 to $190,717. We expect the arbitration process to conclude by mid-2004.

The results of AquaSource have been included in the Company's consolidated financial statements beginning August 1, 2003. The acquired operations of AquaSource serve over 130,000 water and wastewater customer accounts in 11 states (including the Connecticut operations which were sold in October 2003). Please refer to the Dispositions footnote for a discussion of the sale of the AquaSource operations located in Connecticut and the planned sale of the New York operations. The AquaSource acquisition was initially funded by a portion of the proceeds from the July 2003 issuance of $135,000 of unsecured notes due 2023, with an interest rate of 4.87%, and the issuance of a $90,000 unsecured note by Aqua America. In August 2003, the $90,000 unsecured note was repaid with the proceeds from the issuance of 5,000,000 shares of common stock through a shelf registration.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Under the purchase method of accounting, the purchase price is allocated to AquaSource's net tangible and intangible assets based upon their estimated fair values at the date of the acquisition. The preliminary purchase price allocation, which does not reflect the effects of the purchase price arbitration proceeding, is as follows:

	July 31, 2003
Property, plant and equipment, net	$ 210,008
Current assets	9,687
Other long-term assets	14,204
Assets held for sale, net	4,096
Total assets acquired	237,995
Current liabilities	8,214
Long-term debt	7,170
Other long-term liabilities	31,894
Total liabilities assumed	47,278
Net assets acquired	$ 190,717

The net property, plant and equipment balance includes accumulated depreciation of $91,296. The following supplemental pro forma information is presented to illustrate the effects of the AquaSource acquisition, which was completed on July 31, 2003, on the historical operating results for the year ended December 31, 2003 and 2002 as if the acquisition had occurred at the beginning of the respective periods (unaudited):

	Years Ended December 31, 2003	Years Ended December 31, 2002
Operating revenues	$ 407,628	$ 391,569
Net income	$ 74,436	$ 72,420
Net income per common share:		
Basic	$ 0.81	$ 0.80
Diluted	$ 0.81	$ 0.79

The supplemental information is not necessarily representative of the actual results that may have occurred for these periods or of the results that may occur in the future. This information does not reflect the effects of recent rate increases or cost savings that may result from the acquisition, such as the effects of a reduction in administrative costs. This information is based upon the historical operating results of AquaSource for periods prior to the acquisition date of July 31, 2003 as provided to the Company by AquaSource, Inc. and DQE, Inc. management.

Other Acquisitions - On November 21, 2003, Aqua America entered into a purchase agreement with ALLETE Water Services, Inc., a subsidiary of ALLETE, Inc., to acquire the capital stock of Heater Utilities, Inc., which owns water and wastewater systems located in North Carolina. The purchase agreement provides for a cash purchase price of $48,000 and the assumption of approximately $28,000 in debt, reflecting an acquisition premium of approximately $18,000. The Company intends to seek the ability to recover a portion of this premium through customer rates via the North Carolina Utilities Commission approval process. The acquisition, which is subject to regulatory approval, is expected to close in mid-2004. This acquisition will add approximately 50,000 customers in the areas of suburban Raleigh, Charlotte, Gastonia and Fayetteville, North Carolina.

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During 2003, in addition to the AquaSource acquisition, the Company completed 17 acquisitions or other growth ventures in the various states in which the Company operates for an aggregate purchase price of $1,614 in cash. The operating revenues included in the consolidated financial statements during the period owned by the Company was $312.

During 2002, the Company completed 25 acquisitions or other growth ventures in various states. The total purchase price of $11,659 for the systems acquired in 2002 consisted of $8,914 in cash and the issuance of 178,864 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2002 were $2,920 in 2003 and $1,341 in 2002.

During 2001, the Company completed 20 acquisitions or other growth ventures including the Company's entry into North Carolina. The total purchase price of $14,878 for the systems acquired in 2001 consisted of $9,517 in cash and the issuance of 414,638 shares of the Company's common stock. Operating revenues included in the consolidated financial statements related to the systems acquired in 2001 were $4,647 in 2003, $4,736 in 2002 and $3,432 in 2001.

On February 4, 2003, the Company entered into a mutual termination agreement with Pennichuck Corporation terminating Aqua America's planned acquisition of Pennichuck Corporation, which was originally announced in April 2002. The mutual decision to terminate the merger agreement was primarily in response to a referendum of the City of Nashua, New Hampshire, authorizing Nashua to pursue the acquisition, by an eminent domain proceeding or otherwise, of all or a portion of Pennichuck Corporation's water works system, and was considered to be in the best interests of both companies.

Dispositions

In May 2003, the Company announced agreements for the sale of the AquaSource regulated and nonregulated operations located in Connecticut and New York to a New England-based water company for an aggregate purchase price of $5,000 and the assumption of approximately $800 of debt. The sale of the Conneticut operations closed on October 31, 2003 and provided proceeds of $4,000. The sale of the New York operations is expected to occur in mid-2004. The combined operations in New York and Connecticut represented approximately 2% of the operations acquired from AquaSource, Inc.

In December 2002, as a result of the settlement of a condemnation action, the Company's Ohio operating subsidiary sold to Ashtabula County, Ohio the water utility assets in the unincorporated areas of Ashtabula County and the area within the Village of Geneva on the Lake for $12,118, net of certain closing costs. The sale was in excess of the book value for these assets and the sale generated a gain of $5,676 (or an after-tax gain of $3,690 and $0.04 per share) recorded in the fourth quarter of 2002. We continue to operate this water system for Ashtabula County, beginning after the closing of the sale, under a multi-year operating contract that was recently renewed. The water utility assets sold represent less than 1% of our total assets, and the total number of customers included in the water system sold represents less than 1% of our total customer base.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Property, Plant and Equipment

<TABLE>
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	December 31, 2003	December 31, 2002	Approximate range of remaining lives
Utility plant and equipment:			
Mains and accessories	$ 962,439	$ 815,066	33 to 85 years
Services, hydrants, treatment plants and reservoirs	547,622	432,564	5 to 68 years
Operations structures and water tanks	175,663	140,796	18 to 61 years
Miscellaneous pumping and purification equipment	259,468	182,415	12 to 50 years
Meters, data processing, transportation and operating equipment	251,721	194,073	5 to 50 years
Land and other non-depreciable assets	58,223	51,317	--
Utility Plant and equipment	2,255,136	1,816,231	
Utility construction work in progress	92,106	23,964	--
Net utility plant acquisition adjustment	(48,054)	(6,210)	0 to 20 years
Non-utility plant and equipment	3,116	2,907	2 to 40 years
Total property, plant and equipment	$ 2,302,304	$ 1,836,892	

Accounts Receivable

	December 31, 2003	December 31, 2002
Billed utility revenue	$ 41,843	$ 34,733
Unbilled utility revenue	23,876	26,007
Other	2,452	520
	68,171	61,260
Less allowance for doubtful accounts	5,851	3,580
Net accounts receivable	$ 62,320	$ 57,680

</TABLE>

The Company's customers are located principally in the following states: 54% in Pennsylvania, 11% in Ohio, 8% in Illinois, 7% in Texas, 6% in New Jersey and 4% in Indiana. No single customer accounted for more than one percent of the Company's operating revenues during the years ended December 31, 2003, 2002 or 2001. The following table summarizes the changes in the Company's allowance for doubtful accounts:

	2003	2002	2001
Balance at January 1,	$ 3,580	$ 2,482	$ 1,907
Amounts charged to expense	2,643	3,182	2,557
Accounts written off	(2,715)	(2,375)	(2,179)
Recoveries of accounts written off	253	291	197
Allowance acquired through acquisitions	2,090	--	--
Balance at December 31,	$ 5,851	$ 3,580	$ 2,482

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Regulatory Assets and Liabilities

The regulatory assets represent costs that are expected to be fully recovered from customers in future rates while regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts recovered from customers in advance of incurring the costs. Except for income taxes and the competitive transition charge payment, regulatory assets and regulatory liabilities are excluded from the Company's rate base and do not earn a return. The components of regulatory assets and (liabilities) are as follows:

	December 31,	
	2003	2002
Income taxes, asset	$ 68,917	$ 67,658
Income taxes, liability	(3,434)	(3,574)
CTC payment	8,026	9,172
Postretirement benefits	6,698	8,334
Merger Costs	2,700	3,229
Water tank painting	3,240	2,114
Utility plant retirement costs, asset	13,699	11,089
Utility plant retirement costs, liability	(7,484)	(6,951)
Rate case filing expenses & other	6,399	1,242
	$ 98,761	$ 92,313

Items giving rise to deferred state income taxes, as well as a portion of deferred Federal income taxes related to certain differences between tax and book depreciation expense, are recognized in the rate setting process on a cash or flow-through basis and will be recovered as they reverse. The regulatory asset associated with the Competitive Transition Charge ("CTC") payment represents the full payoff in 2001, net of amortization, of the allocable share of a CTC as negotiated by Aqua Pennsylvania, Inc. from its electric distribution company, PECO Energy Company. The Pennsylvania Electricity Generation Customer Choice and Competition Act permitted electric distribution utilities to recover their stranded costs from its customers in the form of a CTC. Rate recovery of the $11,465 CTC payment began in 2000 and is expected to conclude in 2010.

Postretirement benefits include pension and other postretirement benefits. The pension costs include deferred net pension expense in excess of amounts funded which the Company believes will be recoverable in future years as pension funding is required, and in addition includes an additional minimum liability for pensions as a result of a decline in the fair market value of plan assets and a decline in the discount rate assumed for pension obligations. The additional minimum liability equals the excess of the accumulated benefit obligation over the fair value of plan assets. The regulatory asset related to postretirement benefits other than pensions represents costs that were deferred between the time that the accrual method of accounting for these benefits was adopted in 1993 and the recognition of the accrual method in the Company's rates as prescribed in subsequent rate filings. Amortization of the amount deferred for postretirement benefits other than pensions began in 1994 and is currently being recovered in rates.

The regulatory asset related to the recovery of merger costs represents the portion of the Consumers Water Company merger costs that will be recovered in rates as a result of a rate settlement in 2000 and is being amortized over the recovery period. Expenses associated with water tank painting are deferred and amortized over a period of time as approved in the regulatory process. The regulatory asset for utility plant retirement costs, including cost of removal, represents costs already incurred that are expected to be recovered in future rates over a five year recovery period. The regulatory liability for utility plant retirement costs represents amounts recovered through rates during the life of the associated asset and before the costs are incurred. The regulatory asset related to rate case filing expenses represents the costs associated with filing for rate increases that are deferred and amortized over periods that generally range from one to three years.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Income Taxes

The provision for income taxes consists of:

	Years Ended December 31,		
	2003	2002	2001
Current:			
Federal	$ 11,933	$ 16,619	$ 18,935
State	7,249	6,647	5,106
	19,182	23,266	24,041
Deferred:			
Federal	25,521	17,921	13,048
State	1,220	859	1,887
	26,741	18,780	14,935
Total tax expense	$ 45,923	$ 42,046	$ 38,976

The statutory Federal tax rate is 35% and for states with a corporate net income tax, the state corporate net income tax rates range from 5.50% to 9.99% for all years presented. The Company's Federal income tax returns for all years through 1999 have been closed.

The reasons for the differences between amounts computed by applying the statutory Federal income tax rate to income before income tax expense are as follows:

<TABLE>
<CAPTION>

<S>	Years Ended December 31, <C> 2003	<C> 2002	<C> 2001
Computed Federal tax expense at statutory rate	$ 40,852	$ 38,238	$ 34,680
Increase in tax expense for depreciation expense to be recovered in future rates	1,125	558	452
Merger transaction costs	(96)	(680)	--
Charitable contribution	(424)	(98)	--
Deduction for Aqua America common dividends paid under employee benefit plan	(241)	(207)	--
Amortization of deferred investment tax credits	(285)	(283)	(276)
Prior year rate reductions	(431)	(315)	(322)
State income taxes, net of federal tax benefit	5,505	4,879	4,545
Other, net	(82)	(46)	(103)
Actual income tax expense	$ 45,923	$ 42,046	$ 38,976

</TABLE>

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

The tax effects of temporary differences between book and tax accounting that give rise to the deferred tax assets and deferred tax liabilities are as follows:

	December 31, 2003	December 31, 2002
Deferred tax assets:		
Customers' advances for construction	$ 17,133	$ 17,787
Costs expensed for book not deducted for tax, principally accrued expenses	6,525	4,015
Utility plant acquisition adjustment basis differences	21,784	--
Total gross deferred tax assets	45,442	21,802
Deferred tax liabilities:		
Utility plant, principally due to depreciation and differences in the basis of fixed assets due to variation in tax and book accounting	203,706	177,620
Deferred taxes associated with the gross-up of revenues necessary to recover, in rates, the effect of temporary differences	24,634	23,972
Deferred investment tax credit	6,618	6,903
Unrealized gain on marketable securities	141	83
Other	738	524
Total gross deferred tax liabilities	235,837	209,102
Net deferred tax liability	$ 190,395	$ 187,300

Commitments

The Company maintains agreements with other water purveyors for the purchase of water to supplement its water supply, particularly during periods of peak demand. The agreements stipulate purchases of minimum quantities of water to the year 2026. The estimated annual commitments related to such purchases are expected to approximate $7,404 through 2008. The Company purchased approximately $8,014, $7,079 and $5,807 of water under these agreements during the years ended December 31, 2003, 2002 and 2001, respectively.

The Company leases motor vehicles, buildings and other equipment under operating leases that are noncancelable. During the next five years, $5,797 of future minimum lease payments are due: $2,098 in 2004, $1,647 in 2005, $888 in 2006, $615 in 2007 and $549 in 2008. The Company leases parcels of land on which treatment plants and other facilities are situated and adjacent parcels that are used for watershed protection. The operating leases are noncancelable, expire between 2012 and 2052 and contain certain renewal provisions. Certain leases are subject to an adjustment every five years based on changes in the Consumer Price Index. During each of the next five years, approximately $464 of lease payments for land, subject to the aforesaid adjustment, are due. The Company leases treatment plants to other parties under lease agreements that require payments to the Company of $567 in 2004, $567 in 2005, $567 in 2006, $267 in 2007 and $308 in 2008.

Rent expense was $2,993, $2,182 and $2,281 for the years ended December 31, 2003, 2002 and 2001, respectively.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Long-term Debt and Loans Payable

The Consolidated Statements of Capitalization provides a summary of long-term debt and loans outstanding as of December 31, 2003 and 2002. The supplemental indentures with respect to certain issues of the First Mortgage Bonds restrict the ability of Aqua Pennsylvania, Inc. and certain other operating subsidiaries of the Company to declare dividends, in cash or property, or repurchase or otherwise acquire the stock of these companies. As of December 31, 2003, approximately $245,000 of Aqua Pennsylvania's retained earnings and $52,000 of the retained earnings of certain other subsidiaries were free of these restrictions. Certain supplemental indentures also prohibit Aqua Pennsylvania and certain other subsidiaries of the Company from making loans to, or purchasing the stock of, the Company.

Annual sinking fund payments are required for certain issues of First Mortgage Bonds by the supplemental indentures. The future sinking fund payments and debt maturities of the Company's long-term debt are as follows:

<TABLE>
<CAPTION>

Interest Rate Range	2004	2005	2006	2007	2008	Thereafter
<S>	<C>	<C>	<C>	<C>	<C>	<C>
0.00% to 2.49%	$ 147	$ 164	$ 136	$ 135	$ 135	$ 16,151
2.50% to 2.99%	13	21	22	22	22	18,813
3.00% to 3.49%	--	--	--	--	--	5,618
3.50% to 3.99%	400	400	400	400	400	800
4.00% to 4.99%	--	--	--	--	--	143,135
5.00% to 5.49%	70	70	75	75	80	110,505
5.50% to 5.99%	10,000	--	--	--	--	66,260
6.00% to 6.49%	15,000	--	644	144	10,172	94,360
6.50% to 6.99%	--	10,000	10,000	10,000	--	12,000
7.00% to 7.49%	12,040	28,040	2,040	2,040	2,040	516
7.50% to 7.99%	--	--	--	--	--	23,000
8.00% to 8.49%	--	--	--	--	--	17,500
8.50% to 8.99%	--	--	--	--	--	9,000
9.00% to 9.49%	561	568	576	584	594	50,922
9.50% to 9.99%	1,155	1,155	2,195	995	5,995	31,747
10.00% to 10.50%	--	--	--	--	--	6,000
Total	$ 39,386	$ 40,418	$ 16,088	$14,395	$19,438	$ 606,327

</TABLE>

Aqua Pennsylvania has a five-year $300,000 medium-term note program through December 2004 that provides for the issuance of long-term debt with maturities ranging between one and 35 years at fixed rates of interest, as determined at the time of issuance. The notes issued under this program are secured by the Thirty-Third Supplement to the trust indenture relating to Aqua Pennsylvania's First Mortgage Bonds. In June 2002, Aqua Pennsylvania issued First Mortgage Bonds through the program of $25,000 5.93% Series due 2012. The proceeds from this issuance was used to fund acquisitions, to reduce the balance of Aqua Pennsylvania's short-term debt and for Aqua Pennsylvania's ongoing capital program.

In July 2003, the Company issued $135,000 of unsecured notes due 2023 and with an interest rate of 4.87%. The proceeds of this financing was used to fund the acquisition of the AquaSource operations and to refinance existing debt. In July 2003, the Company also issued a $90,000 unsecured note payable and the proceeds were also used to fund the acquisition of the AquaSource operations. In August 2003, the $90,000 note payable was repaid with the proceeds from an equity offering. At various times during 2003, Aqua Pennsylvania, other operating subsidiaries and the Company issued other notes payable, first mortgage bonds and tax-exempt bonds in aggregate of $27,894 at a weighted average interest rate of 4.50% due at various times ranging from 2013 to 2032. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries, to redeem $7,000 of first mortgage bonds of operating subsidiaries with a weighted average interest rate of 6.35% and redeem the Company's preferred stock of $172. As of December 31, 2003, the Trustees for four issues held $28,438 pending completion of the projects financed with the issues and are reported in the consolidated balance sheet as funds restricted for construction activity. In connection with the acquisition of the AquaSource operations in July 2003, the Company assumed $8,131 of long-term debt of which $7,415 was retired during 2003.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

In June 2002, Aqua Pennsylvania issued $25,000 tax-exempt bonds due in 2032 at a rate of 5.55%. In December 2002, Aqua Pennsylvania issued $25,000 tax-exempt bonds due in 2032 at a rate of 5.15%. The proceeds from the bonds issued are restricted to funding the costs of certain capital projects. At various times during 2002, Aqua Pennsylvania and other operating subsidiaries issued notes payable and tax-exempt bonds in aggregate of $47,765 at a weighted average interest rate of 4.32% due at various times ranging from 2007 to 2032. The proceeds from these issuances were used to reduce a portion of the balance of the short-term debt at each of the respective operating subsidiaries, to redeem $26,835 of First Mortgage Bonds of operating subsidiaries ranging from 3.75% to 5.6% and redeem Aqua America preferred stock of $944. In connection with acquisitions completed in 2002, $6,313 of long-term debt was assumed as a result of acquisitions at an interest rate of 1% due in various years. The weighted average cost of long-term debt at December 31, 2003 and 2002 was 6.19% and 6.56%, respectively.

In October 2002, a 364-day note payable of $22,000 was issued by the Company, the proceeds of which were used to repurchase shares of Aqua America common stock from Veolia Environnement, S.A. (formerly Vivendi Environnement, S.A.) Interest under this facility was based, at the borrower's option, on either a defined base rate or an adjusted London Interbank Offered Rate corresponding to the interest period selected. This note payable was redeemed in May 2003 with a portion of the proceeds from a common stock offering.

Aqua Pennsylvania has a $70,000 364-day revolving credit facility with four banks and the Company has a $20,000 364-day bank revolving credit facility. Funds borrowed under these agreements are classified as loans payable and are used to provide working capital. As of December 31, 2003 and 2002, funds borrowed under the Aqua Pennsylvania revolving credit agreements were $52,068 and $35,664, respectively, and $19,801 and $12,902 were borrowed under the Company's revolving credit agreement, respectively. Interest under these facilities is based, at the borrower's option, on the prime rate, an adjusted federal funds rate, an adjusted London Interbank Offered Rate corresponding to the interest period selected, an adjusted Euro-Rate corresponding to the interest period selected or at rates offered by the banks. These agreements restrict the total amount of short-term borrowings of Aqua Pennsylvania and the Company. A commitment fee ranging from 1/4 to 1/10 of 1% is charged on the unused portion of the revolving credit agreements. The average cost of borrowing under these facilities was 1.6% and 2.3%, and the average borrowing was $62,528 and $63,529, during 2003 and 2002, respectively. The maximum amount outstanding at the end of any one month was $73,079 in 2003 and $83,836 in 2002.

At December 31, 2003 and 2002, the Company had combined short-term lines of credit of $88,000 and $90,000, respectively. Funds borrowed under these lines are classified as loans payable and are used to provide working capital. The average borrowing under the lines was $50,353 and $48,527 during 2003 and 2002, respectively. The maximum amount outstanding at the end of any one month was $73,700 in 2003 and $75,575 in 2002. Interest under the lines is based at the Company's option, depending on the line, on the prime rate, an adjusted Euro-Rate, an adjusted federal funds rate or at rates offered by the banks. The average cost of borrowings under all lines during 2003 and 2002 was 2.4% and 2.8%, respectively.

Interest income of $395, $287 and $367 was netted against interest expense on the consolidated statements of income for the years ended December 31, 2003, 2002 and 2001, respectively. The total interest cost was $45,057, $40,683 and $40,226 in 2003, 2002 and 2001, including amounts capitalized of $2,127, $1,389 and $1,222, respectively.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Fair Value of Financial Instruments

The carrying amount of current assets and liabilities that are considered financial instruments approximates their fair value as of the dates presented. The carrying amount and estimated fair value of the Company's long-term debt are as follows:

	December 31, 2003	December 31, 2002
Carrying amount	$736,052	$617,175
Estimated fair value	781,502	660,436

The fair value of long-term debt has been determined by discounting the future cash flows using current market interest rates for similar financial instruments of the same duration. The Company's customers' advances for construction and related tax deposits have a carrying value of $72,500 and $69,790 at December 31, 2003 and 2002, respectively. Their relative fair values cannot be accurately estimated because future refund payments depend on several variables, including new customer connections, customer consumption levels and future rate increases. Portions of these non-interest bearing instruments are payable annually through 2017 and amounts not paid by the contract expiration dates become non-refundable. The fair value of these amounts would, however, be less than their carrying value due to the non-interest bearing feature.

Preferred Stock

At December 31, 2003, the Company had 1,770,819 shares of Series Preferred Stock with a $1.00 par value authorized, of which 100,000 shares are designated as Series A Preferred Stock. During 1996, the Company designated and issued in connection with an acquisition 32,200 shares as Series B Preferred Stock, $1.00 par value. The Series A Preferred Stock, as well as the undesignated shares of Series Preferred Stock, remains unissued. The Series B Preferred Stock was recorded on the consolidated balance sheet at its liquidation value of $100 per share. All but 172 shares were liquidated during 2002, and in December 2003, the remaining 172 shares of Series B Preferred Stock were redeemed as provided under the provisions of the issue through the issuance of debt with a five-year maturity at an interest rate of 6.05% per annum. As of December 31, 2003, the Company did not have any preferred stock outstanding and has provided for all dividends accrued on the Series B Preferred Stock.

Stockholders' Equity

At December 31, 2003, the Company had 100,000,000 shares of common stock authorized; par value $0.50. Shares outstanding at December 31, 2003, 2002 and 2001 were 92,589,040, 84,895,543 and 85,483,086, respectively. Treasury shares held at December 31, 2003, 2002 and 2001 were 681,384, 2,151,350 and 913,877, respectively.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

The following table summarizes the activity of common stockholders' equity:

<TABLE>
<CAPTION>

	Common stock	Treasury stock	Capital in excess of par value	Retained earnings	Accumulated Other Comprehensive Income	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 2000	$ 27,260	$ (15,346)	$291,013	$123,911	$ 926	$427,764
Net income	--	--	--	60,005	--	60,005
Other comprehensive income, net of income tax of $19	--	--	--	--	39	39
Reclassification adjustment for gains reported in net income, net of income tax of $127	--	--	--	--	(239)	(239)
Dividends	--	--	--	(34,234)	--	(34,234)
Stock split	6,829	--	(6,829)	--	--	--
Stock issued for acquisitions	133	--	5,228	--	--	5,361
Sale of stock	128	672	5,783	--	--	6,583
Repurchase of stock	--	(2,493)	--	--	--	(2,493)
Equity Compensation Plan	3	--	141	--	--	144
Exercise of stock options	297	--	6,642	--	--	6,939
Employee stock plans tax benefits	--	--	2,061	--	--	2,061
Balance at December 31, 2001	34,650	(17,167)	304,039	149,682	726	471,930
Net income	--	--	--	67,154	--	67,154
Other comprehensive income, net of income tax of $56	--	--	--	--	104	104
Reclassification adjustment for gains reported in net income, net of income tax of $412	--	--	--	--	(767)	(767)
Dividends	--	--	--	(36,789)	--	(36,789)
Stock issued for acquisitions	71	--	2,674	--	--	2,745
Sale of stock	161	855	6,220	--	--	7,236
Repurchase of stock	--	(24,109)	--	--	--	(24,109)
Equity Compensation Plan	15	--	598	--	--	613
Exercise of stock options	137	--	3,237	--	--	3,374
Employee stock plans tax benefits	--	--	1,103	--	--	1,103
Balance at December 31, 2002	35,034	(40,421)	317,871	180,047	63	492,594
Net income	--	--	--	70,785	--	70,785
Other comprehensive income, net of income tax of $244	--	--	--	--	455	455
Reclassification adjustment for gains reported in net income, net of income tax of $186	--	--	--	--	(347)	(347)
Dividends	--	--	--	(39,917)	--	(39,917)
Stock split	9,244	--	(9,244)	--	--	--
Sale of stock	2,168	29,163	99,031	--	--	130,362
Repurchase of stock	--	(1,353)	--	--	--	(1,353)
Equity Compensation Plan	8	--	344	--	--	352
Exercise of stock options	181	--	4,283	--	--	4,464
Employee stock plans tax benefits	--	--	723	--	--	723
Balance at December 31, 2003	$ 46,635	$ (12,611)	$413,008	$210,915	$ 171	$658,118

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<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

In August 2003, the Company's Board of Directors declared a 5-for-4 common stock split to be effected in the form of a 25% stock distribution for all common shares outstanding, to shareholders of record on November 14, 2003. Common shares outstanding do not include shares held by the Company in treasury. The new shares were distributed on December 1, 2003. The Company's par value of $0.50 per share remained unchanged and $9,244 was transferred from Capital in Excess of Par Value to Common Stock to record the split. All share and per share data for all periods presented have been restated to give effect to the stock split.

In April 2003, the Company filed a universal shelf registration with the Securities and Exchange Commission to allow for the sale, over time, of up to $250,000 of various debt and equity securities, including common stock. To date, the Company has issued common stock in two transactions under the universal shelf registration:

- In May 2003, the Company issued 1,868,750 shares of common stock in a public offering for proceeds of $33,100, net of expenses. The net proceeds were used to repay short-term debt, including the repayment of $22,000 of indebtedness incurred in connection with the Company's repurchase of 1,513,275 shares of common stock from affiliates of Veolia Environnement, S.A. (formerly Vivendi Environnement, S.A.) in October 2002.

- In August 2003, the Company issued 5,000,000 shares of common stock in a public offering for proceeds of $90,100, net of expenses. The net proceeds were used to repay an unsecured note of $90,000. The indebtedness was incurred by Aqua America in connection with the acquisition of the operations that were purchased from AquaSource, Inc.

The balance remaining available for use under the universal shelf registration as of December 31, 2003 is $121,895. In addition, the Company has a shelf registration statement filed with the Securities and Exchange Commission to permit the offering from time to time of shares of common stock and shares of preferred stock for acquisitions. During 2002 and 2001, 178,664 and 414,638 shares of common stock totaling $2,745 and $5,361, respectively, were issued by the Company to acquire water and wastewater systems. The balance remaining available for use under the acquisition shelf registration as of December 31, 2003 is 2,218,947 shares. The form and terms of such securities shall be determined when and if these securities are issued under these shelf registrations.

In May 2002, Veolia Environnement, S.A. which through its affiliates (collectively "VE") owned approximately 16.8% of our outstanding common stock, advised the Company of their decision to sell its investment in Aqua America, Inc. VE announced that its decision was part of its overall strategy to divest non-core assets and focus on other business strategies. In September 2002, in order to facilitate the orderly re-distribution of the shares held by VE into the market, the Company completed a secondary offering of 12,356,570 shares of Aqua America common stock held by VE. The number of outstanding shares of common stock was not changed and the Company did not receive any proceeds as a result of this secondary offering. In addition, in October 2002 the Company repurchased 1,513,275 shares of Aqua America, Inc. common stock representing the remainder of the shares of Aqua America, Inc. common stock held by VE. The repurchase of shares was funded with proceeds of $22,000 from a short-term credit facility. In May 2003, this $22,000 short-term credit facility was repaid with a portion of the funds from the issuance of 1,868,750 shares of common stock through a shelf registration as described above.

In addition, the Board of Directors has authorized the Company to purchase its common stock, from time to time, in the open market or through privately negotiated transactions. The Company has not repurchased any shares under this authorization since 2000. As of December 31, 2003, 411,209 shares remain available for purchase by the Company.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

The Company has a Dividend Reinvestment and Direct Stock Purchase Plan ("Plan") that allows reinvested dividends to be used to purchase original issue shares of common stock at a five percent discount from the current market value. Under the direct stock purchase program, shares are purchased by investors at market price and the shares are purchased by the Company's transfer agent in the open-market at least weekly. During 2003, 2002 and 2001, under the dividend reinvestment portion of the Plan, 395,605, 402,084 and 379,883 original issue shares of common stock were sold providing the Company with proceeds of $7,000, $6,407 and $5,980, respectively.

The Company reports comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income." Accordingly, the Company's accumulated other comprehensive income for unrealized gains on securities is reported in the Stockholders' Equity section of the Consolidated Balance Sheets and the related *other comprehensive income* is reported in the Consolidated Statements of Income and Comprehensive Income.

Net Income per Common Share and Equity per Common Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares outstanding and potentially dilutive shares. The dilutive effect of employee stock options is included in the computation of Diluted net income per share. The following table summarizes the shares, in thousands, used in computing Basic and Diluted net income per share:

	Years ended December 31,		
	2003	2002	2001
Average common shares outstanding during the period for Basic computation	88,275	85,674	84,841
Dilutive effect of employee stock options	969	864	1,102
Average common shares outstanding during the period for Diluted computation	89,244	86,538	85,943

Equity per common share was $7.11 and $5.80 at December 31, 2003 and 2002, respectively. These amounts were computed by dividing common stockholders' equity by the number of shares of common stock outstanding at the end of each year.

Shareholder Rights Plan

The Company has a Shareholder Rights Plan designed to protect the Company's shareholders in the event of an unsolicited unfair offer to acquire the Company. Each outstanding common share is entitled to one Right which is evidenced by the common share certificate. In the event that any person acquires 20% or more of the outstanding common shares or commences a tender or exchange offer which, if consummated, would result in a person or corporation owning at least 20% of the outstanding common shares of the Company, the Rights will begin to trade independently from the common shares and, if certain circumstances occur, including the acquisition by a person of 20% or more of the outstanding common shares, each Right would then entitle its holder to purchase a number of common shares of the Company at a substantial discount. If the Company is involved in a merger or other business combination at any time after the Rights become exercisable, the Rights will entitle the holder to acquire a certain number of shares of common stock of the acquiring company at a substantial discount. The Rights are redeemable by the Company at a redemption price of $.01 per Right at any time before the Rights become exercisable. The Rights will expire on March 1, 2008, unless previously redeemed.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Employee Stock and Incentive Plan

Under the 1994 Equity Compensation Plan ("Plan"), the Company may grant qualified and non-qualified stock options to officers, key employees and consultants. Officers and key employees may also be granted dividend equivalents and restricted stock. Restricted stock may also be granted to non-employee members of the Board of Directors ("Board"). In May 2003, the Shareholders authorized a 3,500,000 share increase in the shares available for issuance under the Plan. The maximum number of shares that may be subject to grants under the Plan to any one individual in any one year is 150,000. Awards under this plan are made by a committee of the Board of Directors.

Options under the plan were issued at the market price of the stock on the day of the grant. Options are exercisable in installments of 33% annually, starting one year from the date of the grant and expire 10 years from the date of the grant. The following table summarizes stock option transactions for the plan:
<TABLE>
<CAPTION>

	As of or For the Years Ended December 31,					
	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Options:						
Outstanding, beginning of year	2,830,133	$ 12.06	2,559,763	$ 10.66	2,829,754	$ 8.55
Granted	613,654	16.98	617,813	16.64	669,599	15.28
Terminated	(15,533)	14.78	(8,265)	12.99	(22,729)	9.70
Exercised	(434,833)	10.28	(339,178)	9.82	(916,861)	7.51
Outstanding, end of year	2,993,421	$ 13.31	2,830,133	$ 12.06	2,559,763	$ 10.66
Exercisable, end of year	1,756,300	$ 11.01	1,555,483	$ 9.70	1,269,635	$ 8.63

</TABLE>

Options exercised during 2003 ranged in price from $4.38 per share to $16.65 per share. At December 31, 2003, 4,984,151 options under the Plan were still available for grant. The following table summarizes the price ranges of the options outstanding and options exercisable as of December 31, 2003:
<TABLE>
<CAPTION>

	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
Range of prices:					
$ 4.56 - 7.99	419,291	2.3	$ 6.18	419,291	$ 6.18
$ 8.00 - 9.99	320,558	6.3	9.39	320,558	9.39
$10.00 - 12.99	489,839	4.9	11.10	489,839	11.10
$13.00 - 15.99	556,918	7.3	15.28	338,294	15.28
$16.00 - 16.99	1,084,944	8.8	16.65	188,318	16.65
$17.00 - 18.34	121,871	9.4	18.32	--	--
	2,993,421	6.7	$ 13.31	1,756,300	$ 11.01

</TABLE>

Under SFAS No. 123 "Accounting for Stock-Based Compensation" and SFAS No. 148 "Accounting for Stock-Based Compensation - Transition and Disclosure", the Company elects to continue to apply the provisions of APB Opinion No. 25 and to provide the pro forma disclosure provisions of this statement. Accordingly, no compensation cost has been recognized in the financial statements for stock options that have been granted. Pursuant to the disclosure requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, pro forma net income available to common stock and earnings per share are presented in the Summary of Significant Accounting Policies - Stock-Based Compensation as if compensation cost for stock options was determined as of the grant date under the fair value method.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

Restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. During 2003, 2002 and 2001, 20,156, 37,031 and 9,844 shares of restricted stock were granted with a restriction period ranging from six to 36 months. The value of restricted stock awards, which are "compensatory", is equal to the fair market value of the stock on the date of the grant and is amortized ratably over the restriction period.

Pension Plans and Other Postretirement Benefits

The Company maintains a qualified, defined benefit pension plan that covers a majority of its full-time employees who were hired prior to April 1, 2003. Retirement benefits under the plan are generally based on the employee's total years of service and compensation during the last five years of employment. The Company's policy is to fund the plan annually at a level which is deductible for income tax purposes and which provides assets sufficient to meet its pension obligations. To offset certain limitations imposed by the Internal Revenue Code with respect to payments under qualified plans, the Company has a non-qualified Excess Benefit Plan for Salaried Employees in order to prevent certain employees from being penalized by these limitations. The Company also has non-qualified Supplemental Executive Retirement Plans for certain current and retired employees. The net pension costs and obligations of the qualified and non-qualified plans are included in the tables which follow. Employees hired after April 1, 2003 may participate in a defined contribution plan that provides a Company matching contribution on amounts contributed by participants and an annual profit-sharing contribution based upon a percentage of the eligible participants' compensation.

In addition to providing pension benefits, the Company offers certain Postretirement Benefits other than Pensions ("PBOPs") to employees hired before April 1, 2003 and retiring with a minimum level of service. These PBOPs include continuation of medical and prescription drug benefits for eligible retirees and life insurance benefits for certain eligible retirees. The Company funds its gross PBOP cost through various trust accounts. The benefits of retired officers and certain other retirees are paid by the Company and not from plan assets due to limitations imposed by the Internal Revenue Code.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law which would provide plan sponsors a federal subsidy for certain qualifying prescription drug benefits covered under the sponsor's postretirement health care plans. The Company is currently reviewing the impact of the Act and has elected to defer recognition of the benefit to its postretirement health care plans in accordance with FASB Staff Position No. 106-1, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." Any measures of accumulated postretirement benefit obligation and net periodic PBOP cost for the year ended December 31, 2003 do not reflect the effects of the Act. Currently, specific authoritative accounting guidance for the federal subsidy is pending and that guidance when issued may require the Company to change previously reported information.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

The changes in the benefit obligation and fair value of plan assets, the funded status of the plans and the assumptions used in the measurement of the company's benefit obligation are as follows:

<TABLE>
<CAPTION>

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Change in benefit obligation:				
Benefit obligation at January 1,	$131,059	$119,667	$ 25,436	$ 22,317
Service cost	3,627	3,205	987	840
Interest cost	8,999	8,501	1,703	1,620
Plan amendments	--	170	--	--
Actuarial loss	12,222	5,104	1,978	1,574
Plan participants' contributions	--	--	513	342
Benefits paid	(5,809)	(5,588)	(1,483)	(1,257)
Benefit obligation at December 31,	150,098	131,059	29,134	25,436
Change in plan assets:				
Fair value of plan assets at January 1,	94,438	113,330	12,200	12,216
Actual return on plan assets	20,021	(13,369)	816	(1,168)
Employer contributions	81	65	2,345	2,067
Benefits paid	(5,809)	(5,588)	(970)	(915)
Fair value of plan assets at December 31,	108,731	94,438	14,391	12,200
Funded status of plan:				
Funded status at December 31,	41,367	36,621	14,743	13,236
Unrecognized actuarial loss	(29,164)	(30,471)	(4,857)	(2,839)
Unrecognized prior service cost	(1,942)	(2,337)	590	647
Unrecognized net transition obligation	1,227	1,436	(7,231)	(8,034)
Accrued benefit costs	$ 11,488	$ 5,249	$ 3,245	$ 3,010

</TABLE>

The Company's pension plans had an accumulated benefit obligation of $121,521 and $106,053 at December 31, 2003 and 2002, respectively. The following table provides the net liability recognized on the Consolidated Balance Sheets at December 31,:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Prepaid benefits cost	$ --	$ 1,919	$ 937	$ 1,225
Accrued benefit cost	(11,488)	(7,168)	(4,182)	(4,235)
Additional minimum liability	(2,003)	(5,989)	--	--
Intangible assets	1,962	1,258	--	--
Accumulated other comprehensive income	41	4,731	--	--
Net liability recognized	$ (11,488)	$ (5,249)	$ (3,245)	$ (3,010)

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

At December 31, 2003 and 2002, the Company's pension plans had benefit obligations in excess of its plan assets. The following tables provide the projected benefit obligation, the accumulated benefit obligation and fair market value of the plan assets as of December, 31:

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2003	2002
Projected benefit obligation	$ 150,098	$ 131,059
Fair value of plan assets	108,731	94,438

	Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2003	2002
Accumulated benefit obligation	$ 121,521	$ 84,756
Fair value of plan assets	108,731	72,551

*2002 data in this table excludes pension plan with plan assets in excess of accumulated benefit obligation.

The following table provides the components of net periodic benefit costs for the years ended December 31,:

<TABLE>
<CAPTION>

	Pension Benefits			Other Postretirement Benefits		
	2003	2002	2001	2003	2002	2001
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost	$ 3,627	$ 3,205	$ 2,986	$ 987	$ 840	$ 705
Interest cost	8,999	8,501	8,261	1,703	1,620	1,427
Expected return on plan assets	(7,775)	(9,945)	(10,891)	(917)	(953)	(947)
Amortization of transition obligation (asset)	(209)	(209)	(110)	803	803	803
Amortization of prior service cost	395	414	432	(57)	(57)	(57)
Amortization of actuarial (gain) loss	1,282	(2)	(528)	62	(5)	(179)
Amortization of regulatory asset	--	--	-	136	136	136
Capitalized costs	(205)	(66)	(49)	(598)	(520)	(475)
Rate-regulated adjustment	--	--	(553)	--	--	--
Net periodic benefit cost	$ 6,114	$ 1,898	$ (452)	$ 2,119	$ 1,864	$ 1,413

</TABLE>

The rate-regulated adjustment set forth above is required for 2001 in order to reflect pension expense (credit) for the Company in accordance with the method used in establishing water rates.

Accounting for pensions and other postretirement benefits requires an extensive use of assumptions about the discount rate, expected return on plan assets, the rate of future compensation increases received by the Company's employees, mortality, turnover and medical costs. Each assumption is reviewed annually with assistance from the Company's actuarial consultant who provides guidance in establishing the assumptions. The assumptions are selected to represent the average expected experience over time and may differ in any one year from actual experience due to changes in capital markets and the overall economy. These differences will impact the amount of pension and other postretirement benefit expense that the Company recognizes.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

The significant assumptions related to the Company's pension and other postretirement benefit plans are as follows:

<TABLE>
<CAPTION>

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Weighted-average Assumptions Used to Determine Benefit Obligations as of December 31,				
Discount rate	6.25%	6.75%	6.25%	6.75%
Rate of compensation increase	4.0-5.0%	4.0-5.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Benefit Obligations as of December 31,				
Health care cost trend rate	n/a	n/a	10%	10%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5%	5%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2009	2006
Weighted-average Assumptions Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Discount rate	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets	8.50%	9.00%	6.0-9.0%	6.0-9.0%
Rate of compensation increase	4.0-5.0%	4.0-5.0%	4.0%	4.0%
Assumed Health Care Cost Trend Rates Used to Determine Net Periodic Benefit Costs for Years Ended December 31,				
Health care cost trend rate	n/a	n/a	10%	12%
Rate to which the cost trend is assumed to decline (the ultimate trend rate)	n/a	n/a	5%	5%
Year that the rate reaches the ultimate trend rate	n/a	n/a	2006	2006

n/a - Assumption is not applicable to pension benefits.
</TABLE>

Assumed health-care trend rates have a significant effect on the expense and liabilities for other postretirement benefit plans. The health care trend rate is based on historical rates and expected market conditions. A one-percentage point change in the expected health-care cost trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on the health-care component of the accrued other postretirement benefit obligation	$ 949	$ (860)
Effect on total service and interest cost components of net periodic postretirement health-care benefit cost	$ 103	$ (95)

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

The discount rate is based on a market rate for a recognized-rating agency's high-quality long-term bond portfolio with durations matching the expected payouts under our retirement plans. The Company's pension expense and liability (benefit obligations) increases as the discount rate is reduced.

The Company's expected return on assets is determined by evaluating the asset class return expectations with its advisors as well as actual, long-term, historical results of our asset returns. The Company's pension expense increases as the expected return on assets decreases. The Company believes its actual long-term asset allocation on average will approximate the targeted allocation. The Company's investment strategy is to earn a reasonable rate of return while maintaining risk at acceptable levels through the diversification of investments across and within various asset categories. Investment returns are compared to benchmarks that include the S&P 500 Index, the Lehman Brothers Intermediate Government/Credit Index, and a combination of the two indices. The Pension Committee of the Board of Directors meets semi-annually to review plan investments and management monitors investment performance quarterly through a performance report prepared by an external consulting firm.

The Company's pension plan asset allocation and the target allocation by asset category are as follows:

	2004 Target Allocation	Percentage of Plan Assets at December 31, 2003	2002
Asset Category:			
Equity securities	65%	66%	63%
Debt securities	35%	32%	35%
Cash	0%	2%	2%
Total	100%	100%	100%

Equity securities include Aqua America, Inc. common stock in the amounts of $6,469 or 5.9% of total plan assets and $4,701 or 5.0% of total plan assets as of December 31, 2003 and 2002, respectively.

The asset allocation for the Company's other postretirement benefit plans and the target allocation by asset category are as follows:

	2004 Target Allocation	Percentage of Plan Assets at December 31, 2003	2002
Asset Category:			
Cash	65%	64%	64%
Equity securities	35%	36%	36%
Total	100%	100%	100%

Funding requirements for qualified defined benefit pension plans are determined by government regulations and not by accounting pronouncements. In accordance with funding rules, during 2004 our pension contribution is expected to be $5,371.

As of December 31, 2003, the Company has an additional minimum liability of $41 associated with our defined benefit plan. The additional minimum liability is a result of the accumulated benefit obligation exceeding the fair value of plan assets and results in the establishment of a regulatory asset, as the Company anticipates recovery of the future, increased pension expense through customer rates. An additional minimum liability of $4,731 was initially recorded on December 31, 2002 as a result of a decline in pension plan assets and a decrease in the assumed discount rate which resulted in an increase in pension liabilities. The change in the additional minimum liability from December 31, 2002 to December 31, 2003 resulted from an increase in the pension plan assets during 2003 due to positive equity market performance, offset partially by the effect of a decreased discount rate.

<PAGE>

AQUA AMERICA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements (continued
(In thousands of dollars, except per share amounts)

The Company has 401(k) savings plans that cover substantially all employees. The Company makes matching contributions that are invested in Aqua America, Inc. common stock based on a percentage of an employee's contribution, subject to certain limitations. The Company's matching contribution, recorded as compensation expense, was $921, $859 and $798 for the years ended December 31, 2003, 2002 and 2001, respectively.

Water and Wastewater Rates

In November 2003, the Company's Pennsylvania operating subsidiary, Aqua Pennsylvania, Inc., filed an application with the Pennsylvania Public Utility Commission ("PAPUC") requesting a $25,300 or 10.2% increase in annual revenues. The application is currently pending before the PAPUC and a final determination is anticipated by August 2004.

On August 1, 2002, the PAPUC granted Aqua Pennsylvania, Inc. a $21,226 or 10.2% base rate increase. The rates in effect at the time of the filing included $9,400 in Distribution System Improvement Charges ("DSIC") at 5.0%. Consequently, the total base rates increased by $30,626 and the DSIC was reset to zero.

The Company's other operating subsidiaries were allowed annual rate increases of $1,275 in 2003, $3,024 in 2002 and $4,799 in 2001, represented by eight, thirteen and nine rate decisions, respectively. Revenues from these increases realized in the year of grant were approximately $839, $1,403 and $4,200 in 2003, 2002 and 2001, respectively.

Four states in which the Company operates permit water utilities, and in some states wastewater utilities, to add a surcharge to their water or wastewater bills to offset the additional depreciation and capital costs related to infrastructure system replacement and rehabilitation projects completed and placed into service between base rate filings. Currently, Pennsylvania, Illinois, Ohio and Indiana allow for the use of infrastructure rehabilitation surcharges. These mechanisms typically adjust periodically based on additional qualified capital expenditures completed or anticipated in a future period. The infrastructure rehabilitation surcharge is capped as a percentage of base rates, generally 5% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. Infrastructure rehabilitation surcharges provided revenues in 2003, 2002 and 2001 of $8,147, $5,518 and $6,672, respectively.

<PAGE>
<TABLE>
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Selected Quarterly Financial Data (Unaudited) Aqua America, Inc. and Subsidiaries

(in thousands of dollars, except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
2003					
<S>	<C>	<C>	<C>	<C>	<C>
Operating revenues	$ 80,489	$ 83,379	$102,153	$101,212	$367,233
Operations and maintenance expense	30,664	31,029	36,777	42,132	140,602
Net income available to common stock	13,324	15,235	23,620	18,606	70,785
Basic net income per common share	0.16	0.18	0.26	0.20	0.80
Diluted net income per common share	0.16	0.18	0.26	0.20	0.79
Dividend paid per common share	0.112	0.112	0.112	0.120	0.456
Dividend declared per common share	0.112	0.112	0.232	--	0.456
Price range of common stock					
- high	17.83	19.85	20.07	22.40	22.40
- low	15.77	17.22	18.28	18.71	15.77
2002					
Operating revenues	$ 71,669	$ 76,615	$ 91,918	$ 81,826	$322,028
Operations and maintenance expense	27,285	28,915	31,143	30,392	117,735
Net income available to common stock	11,875	14,818	21,815	18,646	67,154
Basic net income per common share	0.14	0.17	0.25	0.22	0.78
Diluted net income per common share	0.14	0.17	0.25	0.22	0.78
Dividend paid per common share	0.106	0.106	0.106	0.112	0.430
Dividend declared per common share	0.106	0.106	0.218	--	0.430
Price range of common stock					
- high	19.69	20.00	16.24	17.50	20.00
- low	16.88	14.79	12.82	15.44	12.82

</TABLE>

All per share data as presented has been adjusted for the 2003 5-for-4 common stock split effected in the form of a 25% stock distribution. High and low prices of the Company's common stock are as reported on the New York Stock Exchange Composite Tape. The cash dividends paid in December 2003 of $0.12 and December 2002 of $0.112 were declared in August 2003 and August 2002, respectively.

Beginning August 1, 2003, the financial results for the operations acquired in the AquaSource acquisition have been included in the Company's consolidated financial statements.

Net income available to common stock and net income per share for the fourth quarter of 2002 includes a net gain of $3,690 ($5,676 pre-tax) or $0.04 per share on the sale of a portion of our Ashtabula, Ohio water system.

<PAGE>
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Summary of Selected Financial Data — Aqua America, Inc. and Subsidiaries

(in thousands of dollars, except per share amounts)

Years ended December 31,	2003 (a)	2002*	2001*	2000*	1999*
<S>	<C>	<C>	<C>	<C>	<C>
PER COMMON SHARE:					
Income from operations before non-recurring items: (b)					
Basic	$0.80	$0.74	$0.71	$0.62	$0.56
Diluted	0.79	0.73	0.70	0.62	0.56
Net income (b)					
Basic	0.80	0.78	0.71	0.65	0.45
Diluted	0.79	0.78	0.70	0.65	0.45
Cash dividends paid	0.46	0.43	0.40	0.38	0.36
Cash dividends declared	0.46	0.43	0.40	0.38	0.36
Return on average stockholders' equity (b)	12.3%	13.9%	13.3%	13.2%	10.1%
Book value at year end	$7.11	$5.80	$5.52	$5.10	$4.55
Market value at year end	22.10	16.48	18.04	15.68	10.59
INCOME STATEMENT HIGHLIGHTS:					
Operating revenues	$367,233	$322,028	$307,280	$274,014	$256,546
Depreciation and amortization	51,463	44,322	40,168	34,100	31,903
Interest expense, net (c)	42,535	39,007	38,637	37,775	31,796
Income before income taxes	116,718	109,252	99,087	86,995	62,915
Provision for income taxes	45,923	42,046	38,976	34,105	26,531
Net income available to common stock (b)	70,785	67,154	60,005	52,784	36,275
BALANCE SHEET HIGHLIGHTS:					
Total assets	$2,069,736	$1,717,069	$1,555,108	$1,413,723	$1,280,805
Property, plant and equipment, net	1,824,291	1,486,703	1,364,282	1,249,652	1,135,230
Stockholders' equity	659,030	493,097	472,717	430,587	367,141
Long-term debt, including current portion	736,052	617,175	531,455	472,712	425,946
Total debt	832,511	732,288	641,123	573,706	529,015
ADDITIONAL INFORMATION:					
Net cash flows from operating activities	$143,373	$121,560	$102,165	$86,972	$74,103
Capital additions	163,320	136,164	124,088	129,740	96,383
Cash expended for acquisitions of utility systems	192,331	8,914	9,517	3,546	39,164
Dividends on common stock	39,917	36,789	34,234	30,406	29,217
Number of customers served	749,491	605,474	587,537	565,146	548,937
Number of shareholders of common stock	22,726	21,389	20,920	20,978	21,187
Common shares outstanding (000)	92,589	84,896	85,483	83,869	80,103
Employees (full-time)	1,260	971	951	943	945

</TABLE>

*Share and per share data has been restated for the 2003 5-for-4 stock split.

(a) Beginning August 1, 2003, the financial results for the operations acquired in the AquaSource acquisition have been included in Aqua America's consolidated financial statements.

(b) Income per share from operations before non-recurring items is a measure that is not determined in accordance with GAAP and may not be comparable to similarly titled measures reported by other companies. This Non-GAAP measure should not be considered as an alternative to net income per share as determined in accordance with GAAP. We believe that this is useful as an indicator of operating performance, as we measure if for management purposes, because it provides a better understanding of our results of operations by highlighting our ongoing operations and the underlying profitability of our core business. Non-recurring items include the following: the 2002 amounts include a net gain of $3,690 ($5,676 pre-tax) or $0.04 per share on the sale of a portion of our Ashtabula, Ohio water system; the 2000 amounts include a net gain of $2,236 ($4,041 pre-tax) or $0.03 per share for the partial recovery of the merger costs related to the merger with Consumers Water Company; and the 1999 amounts include a net charge of $8,596 ($10,121 pre-tax) or $0.11 per share for the merger transaction costs and related restructuring costs.

(c) Includes dividends on preferred stock of subsidiary and minority interest; net of allowance for funds used during construction.

Filename:	ex21.txt
Type:	EX-21
Comment/Description:	Exhibit 21 Subsidiaries

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Exhibit 21

AQUA AMERICA, INC. AND SUBSIDIARIES

The following table lists the significant subsidiaries and other active subsidiaries of Aqua America, Inc. at December 31, 2003:

Aqua Pennsylvania, Inc. (Pennsylvania)
Aqua Resources, Inc. (Pennsylvania)
Aqua Services, Inc. (Delaware)
Consumers Oho Water Company (Ohio)
Aqua Illinois, Inc. (Illinois)
Aqua New Jersey, Inc. (New Jersey)
Aqua Maine, Inc. (Maine)
Aqua North Carolina, Inc. (North Carolina)
Aqua Texas, Inc. (Texas)
Aqua Indiana, Inc. (Indiana)
Aqua Utilities, Inc. (Texas)
Aqua Virginia, Inc. (Virginia)
Aqua Utilities Florida, Inc. (Florida)
Aqua Missouri, Inc. (Missouri)
Aqua South Carolina, Inc. (South Carolina)

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Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-61772, 333-42275 and 333-104290), on Form S-4 (No. 333-93243), and on Form S-8 (Nos. 333-61768, 333-70859, 033-52557, 33-27032, 2-81757, 333-81085, 333-107673 and 333-113502) of Aqua America, Inc. of our report dated January 28, 2004 relating to the consolidated financial statements, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K.

PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 12, 2004

Filename:	ex31-1.txt
Type:	EX-31
Comment/Description:	Exhibit 31.1 Certifications

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Exhibit 31.1

CERTIFICATION

I, Nicholas DeBenedictis, Chairman, President and Chief Executive Officer of Aqua America, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986.]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer

<PAGE>

Exhibit 31.2

CERTIFICATION

I, David P. Smeltzer, Senior Vice President - Finance and Chief Financial Officer of Aqua America, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Aqua America, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) [Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986.]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures, and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2004

DAVID P. SMELTZER

David P. Smeltzer
Senior Vice President - Finance and Chief Financial Officer

Filename:	ex32-1.txt
Type:	EX-32
Comment/Description:	Exhibit 32.1 Cert. Pursuant to 18 U.S.C Sec. 1350

(this header is not part of the document)

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Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2003 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nicholas DeBenedictis, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

NICHOLAS DEBENEDICTIS

Nicholas DeBenedictis
Chairman, President and Chief Executive Officer
March 12, 2004

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.1 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Aqua America, Inc. and will be retained by Aqua America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Filename:	ex32-2.txt
Type:	EX-32
Comment/Description:	Exhibit 32.2 Cert. Pursuant to 18 U.S.C Sec. 1350

(this header is not part of the document)

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Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350

In connection with the Annual Report on Form 10-K for the year ended December 31, 2003 of Aqua America, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David P. Smeltzer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. Section 78m(a) or Section 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DAVID P. SMELTZER

David P. Smeltzer
Senior Vice President - Finance and Chief Financial Officer
March 12, 2004

The foregoing certification shall not be deemed to be filed for purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to liability under that section. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act except to the extent this Exhibit 32.2 is expressly and specifically incorporated by reference in any such filing.

A signed original of this written statement required by 18 U.S.C. Section 1350 has been provided to Aqua America, Inc. and will be retained by Aqua America, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

AQUA ILLINOIS, INC.
Vermilion Water Division
Rate Case Docket No. 04-

Adds est. per last K3 2004 budget - need actual adds / retires projected - 2/3/04
Vermilion CWIP is $631,539 at 12/31/03 - how much will go into adds in 04 - how much of 05 cap exp. Will be in CWIP at 12/31/05? - 2/6/04 - DEA

Schedule B-5

Person Responsible: J. Schreyer

Gross Additions, Retirements and Transfers

Period Reported: 2004 & 2005
Prior Year (2003) 12 Mo. Actual

Line	Account Number (A)	Account Description (B)	Plant as of 12/31/2003 (C)	Additions 2004 (D)	Retirements 2004 (E)	Transfers 2004 (F)	Projected 12/31/2004 (G)	Additions 2005 (H)	Retirements 2005 (I)	Transfers 2005 (J)	Projected 12/31/2005 (K)	Ave. Future Test Year (L)
1		**Intangible Plant**										
2	301	Organization	$ 6,248				$ 6,248				$ 6,248	$ 6,248
3	302	Franchises & Consents	136,637				136,637				136,637	136,637
4		**Source of Supply Plant**										
5	303	Land and Land Rights(incl misc	859,291				859,291				859,291	859,291
6	304	Structures and Improvements	-				-				-	-
7	305	Collecting & Impounding Res.	1,718,951	79,466	(10,000)		1,788,417	60,000	(10,000)		1,838,417	1,813,417
8	306	Lake, River and Other Intakes	441,128				441,128				441,128	441,128
9	307	Wells and Springs	179,128				179,128				179,128	179,128
10	309	Supply Mains	250,969				250,969				250,969	250,969
11												
12		**Pumping Plant**										
13	303	Land and Land Rights	26,755				26,755				26,755	26,755
14	304	Structures and Improvements	305,684	185,750			491,434				491,434	491,434
15	310	Power Generating Equipment	202,291	-	-		202,291				202,291	202,291
16	311	Electric Pumping Equipment	1,323,859	-			1,323,859				1,323,859	1,323,859
17		**Water Treatment Plant**										
18	303	Land and Land Rights	7,227				7,227				7,227	7,227
19	304	Structures and Improvements	6,358,674	-			6,358,674	97,500			6,456,174	6,407,424
20	320	Water Treatment Equipment	7,544,243	26,606	-		7,570,849	-	-		7,570,849	7,570,849
21												
22		**Transmission & Dist. Plant**										
23	303	Land and Land Rights	51,349				51,349				51,349	51,349
24	304	Structures and Improvements	6,172,022	299,127			6,471,149				6,471,149	6,471,149
25	330	Dist. Reservoirs & Standpipes	2,167,300	1,092,500	(120,000)		3,139,800	-			3,139,800	3,139,800
26	331	T & D Mains	18,754,560	2,462,904	(100,000)		21,117,464	850,675	(100,000)		21,868,139	21,492,802
27	333	Services	5,692,110	353,018	(100,000)		5,945,128	247,000	(100,000)		6,092,128	6,018,628
28	334	Meters	3,323,978	220,800	(75,000)		3,469,778	220,800	(75,000)		3,615,578	3,542,678
29	334	Meter Installations	5,866	104,914	-		110,780	96,000	-		206,780	158,780
30	335	Hydrants	2,129,398	217,956	(20,000)		2,327,354	29,700	(20,000)		2,337,054	2,332,204
31	339	Other Plant & Misc. Equipment	90,316				90,316				90,316	90,316
32		**General Plant**										
33	303	Land and Land Rights	6,021	120			6,141				6,141	6,141
34	304	Structures and Improvements	355,377	30,000			385,377	30,000			415,377	400,377
35	344	Laboratory Equipment	99,205	10,000			109,205	10,000			119,205	114,205
36	340	Office Furniture	573,880	-	-		573,880	-	-		573,880	573,880
37	340	Personal Computers	-	6,200			6,200	19,430			25,630	15,915
38	340	PC Software	-				-				-	-
39	340	MainFrame Computers	-	11,500			11,500				11,500	11,500
40	340	MainFrame Software	-				-				-	-
41	340	Other Machinery & Equipment	-	-			-	-			-	-
42	342	Stores Equipment	41,226				41,226				41,226	41,226
43	345	Power Equipment	63,985				63,985				63,985	63,985
44	346	Communication Equipment	115,763	-			115,763	-			115,763	115,763
45	347	Miscellaneous Equipment	49,690	63,750			113,440	161,750			275,190	194,315
46	341	Transportation Equipment	954,786	65,000	(45,000)		974,786	65,000	(45,000)		994,786	984,786
47	343	Tools, Shop and Garage Equip.	385,965	-	-		385,965	-	-		385,965	385,965
48	348	Other Tangible Plant	19,959				19,959				19,959	19,959
49		Total Utility Plant In Service	$60,413,841	$ 5,229,611	$ (470,000)	$ -	$ 65,173,452	$ 1,887,855	$ (350,000)	$ -	$66,711,307	$65,942,380

From:	Frank Gebhardt [gebhardtf@st-ives.com]
Sent:	Monday, March 15, 2004 10:44 AM
To:	Rubin, Bob
Subject:	FW: ACCEPTED FORM TYPE 10-K (0000950116-04-000827)

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From: EDGAR@sec.gov [mailto:EDGAR@sec.gov]
Sent: Monday, March 15, 2004 6:36 AM
To: PACKARDPRESS@AOL.COM; philacsr@st-ives.com
Subject: ACCEPTED FORM TYPE 10-K (0000950116-04-000827)

THE FOLLOWING SUBMISSION HAS BEEN ACCEPTED BY THE U.S. SECURITIES AND
EXCHANGE
COMMISSION.


COMPANY:        AQUA AMERICA INC
FORM TYPE:      10-K                    NUMBER OF DOCUMENTS: 15
RECEIVED DATE:  15-Mar-2004 11:35       ACCEPTED DATE:       15-Mar-2004 11:36
FILING DATE:    15-Mar-2004 11:35
TEST FILING:    NO                      CONFIRMING COPY:     NO

ACCESSION NUMBER: 0000950116-04-000827

FILE NUMBER(S):
   1. 001-06659

THE PASSWORD FOR LOGIN CIK 0000950116 WILL EXPIRE 10-Mar-2005 20:51.

PLEASE REFER TO THE ACCESSION NUMBER LISTED ABOVE FOR FUTURE INQUIRIES.

REGISTRANT(S):

   1. CIK:         0000078128
      COMPANY:     AQUA AMERICA INC
      FORM TYPE:   10-K
      FILE NUMBER(S):
         1. 001-06659

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